

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Ionia Community Library</b>	County <b>Ionia</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>9/13/05</b>	Date Accountant Report Submitted to State: <b>12/22/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Abraham &amp; Gaffney, P.C.</b>			
Street Address <b>3511 Coolidge Road, Suite 100</b>	City <b>East Lansing</b>	State <b>MI</b>	ZIP <b>48823</b>
Accountant Signature <i>Abraham &amp; Gaffney, P.C. Aaron M. Jones</i>			Date <b>12/21/05</b>

**Ionia Community Library  
Ionia, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2005**

Ionia Community Library  
Ionia, Michigan

June 30, 2005

BOARD OF DIRECTORS

Steve Howard	President
Sally Wilcox	Vice-President
Beth Jungel	Treasurer
Pam Withrow	Secretary
Doug Muscott	Member
Lucy Hughes	Member
Gale Yeomans	Member
Mary Van Loan	Member

Ionia Community Library

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Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Ionia Community Library  
Ionia, Michigan

We have audited the accompanying financial statements of the governmental activities, and the major fund of the Ionia Community Library as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ionia Community Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund of the Ionia Community Library as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 13, 2005

Ionia Community Library  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2005

**New Financial Reporting**

Starting with fiscal year ended June 30, 2005, the first year the library was formally in existence, the Ionia Community Library's (the "Library") financial reporting document reflects the standards set by the Governmental Accounting Standards Board (GASB). The intent of these standards is to provide citizens, taxpayers, and library users with a better understanding of how the Library's money and other assets were managed. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Library's financial health.

The standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Library. The new standards introduce accounting rules and systems that are common in the private sector. This report presents a much broader picture of the Library's financial status. Through this comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Library's financial health.

The discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Library's financial statements, which will immediately follow this section.

Comparative analysis will be provided in future years and it is not required in the first year of implementation of GASB 34.

**Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$1,386,634 (net assets) at the government-wide level.
- The Library's total net assets increased by \$1,386,634, as a result of current year activity at the government-wide level. This was mainly due to the assets transferred to the Library at the inception of the District Library in the current year.
- Unrestricted Fund Balance also increased as a result of current year activity at the fund level. This was mainly due to the transfer of current assets to the Library at the inception of the District Library in the current year.

**Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Ionia Community Library as a whole and present a longer-term view of the Library's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Library in more detail than the government-wide financial statements by providing information about the Library's operating fund.

Ionia Community Library

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2005

**The Library as a Whole**

The following table shows, in a condensed format, the net assets as of June 30, 2005. A comparative analysis of data will be presented in future years when the information is available.

<b>Assets</b>	
Current assets	\$ 469,267
Capital assets	<u>953,598</u>
Total assets	\$ 1,422,865
<b>Liabilities</b>	
Current liabilities	\$ 16,530
Noncurrent liabilities	<u>19,701</u>
Total liabilities	\$ 36,231
<b>Net Assets</b>	
Invested in capital assets	\$ 953,598
Restricted for capital projects	36,999
Unrestricted	<u>396,037</u>
Total net assets	<u>\$ 1,386,634</u>

The Library's total net assets were \$1,386,634 at June 30, 2005. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$396,037 at the end of the fiscal year. The net assets invested in capital assets were at \$953,598. The management's discussion and analysis will present a condensed comparative statement of net assets next year when there are two years of statements in the GASB Statement No. 34 format.

The following table shows the changes in net assets during the current year. Future reports will provide comparative data for the statement of activities. Comparative data is not required during the first year of reporting under requirements of GASB Statement No. 34.

<b>Revenues</b>	
Program revenue:	
Charges for services	\$ 9,568
Operating grants and contributions	221,179
Capital grants and contributions	814,978
General revenue:	
Property taxes	568,100
State aid - unrestricted	19,510
Penal fines	155,379
Interest	9,093
Other	<u>5,905</u>
Total revenues	\$ 1,803,712
<b>Program Expenses</b>	
Recreation and cultural	<u>\$ 417,078</u>
<b>Change in Net Assets</b>	<b><u>\$ 1,386,634</u></b>

Ionia Community Library  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2005

**Governmental Activities**

The Library's governmental revenues totaled \$1,803,712 with the greatest revenue source being capital grants and contributions, from the contribution of the capital assets from the City of Ionia's Hall Fowler Library. Capital grants and contributions make up 45.2 percent of the Library's total governmental revenue.

The Library incurred expenses of \$417,078 during the year. As a special purpose government, all of the governmental expenses incurred are associated with the library service function.

**The Library's Fund**

The analysis of the Library's major fund begins on page 3, following the government-wide financial statements. The Ionia Community Library's Board of Trustees may create funds to help manage money for specific purposes as well as to show accountability for certain activities. The Library's only fund for the fiscal year ended June 30, 2005 was the General Fund.

The General Fund pays for the Library's governmental services. The sole service provided during the fiscal year was library services, which incurred expenditures of \$557,940 for the fiscal year.

**General Fund Budgetary Highlights**

Over the course of the fiscal year, the Library Board made necessary budget adjustments to fund unanticipated expenditures during the year. There were only minor revenue and expenditure amendments done during the current year.

**Capital Assets and Debt Administration**

At the end of the fiscal year, the Library had \$953,598 invested in equipment, furniture, and books (net of accumulated depreciation). The main capital assets added were all of the capital assets transferred from the City of Ionia's Hall Fowler Library and an additional \$45,434 in books, etc. which were purchased and added to the collection.

No debt was issued during the fiscal year. The Library had no indebtedness at June 30, 2005.

**Next Year's Millage Rate**

A twenty-year 1.0 operating millage was approved August 3, 1998. For fiscal year 2004/2005 the estimated revenue was \$272,839 from the actual levy of .9525 mills. The projected revenue for the 2005/2006 fiscal year is \$292,988. Actual revenue may vary due to tax capture by the local Downtown Development Authority.

At its June 23, 2005 meeting, the Library Board of Trustees approved fiscal year 2005/2006 revenue estimates of \$590,216 and expenditures of \$590,216.

**Contacting the Library's Management**

This financial report is intended to provide our citizens, taxpayers, and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact Heidi Nagel, Library Director, 126 East Main Street, Ionia, MI 48846, (616)527-3680, [ionhn@llcoop.org](mailto:ionhn@llcoop.org).

## **BASIC FINANCIAL STATEMENTS**

Ionia Community Library

STATEMENT OF NET ASSETS

June 30, 2005

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 290,735
Investments	176,667
Taxes receivable	1,365
Prepaid expenses	<u>500</u>
Total current assets	469,267
Noncurrent assets	
Capital assets, net	<u>953,598</u>
TOTAL ASSETS	1,422,865
<b>LIABILITIES</b>	
Current	
Accounts payable	2,179
Accrued liabilities	4,396
Other accrued liabilities	7,766
Current portion of compensated absences	<u>2,189</u>
Total current liabilities	16,530
Noncurrent liabilities	
Noncurrent portion of compensated absences	<u>19,701</u>
TOTAL LIABILITIES	<u>36,231</u>
<b>NET ASSETS</b>	
Invested in capital assets	953,598
Restricted for capital projects	36,999
Unrestricted	<u>396,037</u>
TOTAL NET ASSETS	<u><u>\$ 1,386,634</u></u>

See accompanying notes to financial statements.

## STATEMENT OF ACTIVITIES

[illegible]

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Ionia Community Library

GOVERNMENTAL FUND BALANCE SHEET

June 30, 2005

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 290,735
Investments	176,667
Taxes receivable	1,365
Prepaid expenditures	<u>500</u>
TOTAL ASSETS	<u><u>\$ 469,267</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 2,179
Accrued liabilities	4,396
Other accrued liabilities	7,766
Deferred revenue	<u>295,261</u>
TOTAL LIABILITIES	309,602
FUND BALANCE	
Reserved for capital projects	36,999
Unreserved - undesignated	<u>122,666</u>
TOTAL FUND BALANCE	<u>159,665</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 469,267</u></u>

See accompanying notes to financial statements.

Ionia Community Library

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2005

**Fund balance - governmental fund** **\$ 159,665**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 1,107,098	
Accumulated depreciation is	<u>(153,500)</u>	
Capital assets, net		953,598

Long-term receivables are not available to pay for current period expenditures  
and are therefore deferred in the funds. These consist of:

Deferred revenue	295,261
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Long-term liabilities are not due and payable in the current period the funds.  
and therefore are not reported as liabilities in the funds. Long-term liabilities  
at year-end consist of:

Compensated absences	<u>(21,890)</u>
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**Net assets of governmental activities** **\$ 1,386,634**

See accompanying notes to financial statements.

Ionia Community Library

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
GOVERNMENTAL FUND

Year Ended June 30, 2005

	<u>General</u>
REVENUES	
Taxes	\$ 272,839
Charges for services	9,568
Intergovernmental	188,570
Fines and forfeits	155,379
Interest	9,093
Other	<u>82,156</u>
TOTAL REVENUES	717,605
EXPENDITURES	
Recreation and cultural	461,849
Capital outlay	<u>96,091</u>
TOTAL EXPENDITURES	<u>557,940</u>
EXCESS OF REVENUES OVER EXPENDITURES	159,665
Fund balance, beginning of year	<u>-</u>
Fund balance, end of year	<u><u>\$ 159,665</u></u>

See accompanying notes to financial statements.

Ionia Community Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

**Net change in fund balance - governmental fund** \$ 159,665

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 194,714
Depreciation expense	<u>(56,094)</u>

Excess of capital outlay over depreciation expense	138,620
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Contributions of capital assets are not reported in the governmental funds, but are reported at the fair value in the statement of activities.	814,978
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	295,261
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in compensated absences	<u>(21,890)</u>
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<b>Change in net assets of governmental activities</b>	<u><u>\$ 1,386,634</u></u>
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See accompanying notes to financial statements.

Ionia Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Under Public Act 24 of 1989, the City of Ionia, Ionia Public Schools, and the Townships of Easton and Ionia created the Ionia Community Library on July 1, 2004, which is considered a District Library. Public Act 24 defines the Library's legal status as "an Authority under Section 6 of Article IX of the State Constitution of 1963" thereby classifying the Library as a Michigan Municipal Corporation. The City and Townships collect and distribute property taxes that are levied by the Library. The Library has no stockholders, and all monies received are to be used for certain specified purposes in accordance with the by-laws of the Library.

The governing body of the Library is a board, which is comprised of eight (8) members, five (5) appointed by the City of Ionia, one (1) appointed by the Township of Easton, one (1) appointed by the Township of Ionia, and one (1) appointed by Ionia Public Schools. A Library Director is appointed by the board and is considered the executive officer of the Library.

The Ionia Community Library's goal is to provide materials and services, which will furnish opportunities for educational, informational, recreational, and cultural needs of the community.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Ionia Community Library. The Ionia Community Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the Government-wide statements) present information for the Library as a whole.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The General Fund is presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of this fund present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets.

The major fund of the Library is:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**3. Measurement Focus**

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

**4. Basis of Accounting**

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The Government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Library receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

**5. Budgets and Budgetary Accounting**

The General Fund budget shown as required supplementary information to the financial statements was prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. The Library prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.

Ionia Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Budgets and Budgetary Accounting - continued

- c. The budget is legally adopted at the total expenditure level and maintained at the account level.
- d. Budgeted amounts are reported as originally adopted or amended by the Library Board during the year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of money market checking and savings accounts.

Investments consist of certificates of deposit and U.S. Government Securities with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

7. Receivables

Receivables consist of delinquent property taxes due from individuals.

8. Property Taxes

Ionia County levies property taxes for the Library. As the Library tax is collected by the City and Township Treasurers, it is remitted to the County for distribution to various libraries within the County. At March 1 each year, the City and Townships settle their delinquent taxes with the County Treasurer and the unpaid real property tax is remitted to the various libraries by the County Treasurer. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The County is permitted by state statute to levy up to \$1 per \$1,000 of assessed valuation on property within the County on behalf of the Library. For the year ended June 30, 2005, the County levied .9525 mills.

9. Capital Assets

PRIMARY GOVERNMENT

Capital assets include building improvements, equipment, and collections and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are not recorded in the governmental fund. Instead, capital acquisition and construction are reflected as expenditures in the governmental fund and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Building improvements	20 years
Equipment and furniture	5 - 50 years
Collection	5 - 40 years

10. Deferred Revenue

Deferred revenue consists of property taxes for which there is an enforceable claim as of December 31, 2004, but which are levied to finance 2005 operations.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the Library has recorded all liabilities associated with compensated absences. Accumulated vested sick pay amounts and non-vested sick pay amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a liability in the government-wide financial statements.

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

13. Accounting Change

As of July 1, 2004, the Library implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Library's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets were not previously reported. The government-wide statement of activities reflects depreciation expense on the Library's applicable capital assets.
- The fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Ionia Community Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

As of June 30, 2005, the carrying amount and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	\$ 79,198	\$ 73,840
Savings	211,537	211,537
Certificates of deposit	<u>131,353</u>	<u>131,353</u>
TOTAL	<u>\$ 422,088</u>	<u>\$ 416,730</u>

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2005, the Library accounts were insured by the FDIC and NCUA for \$228,283 and the amount of \$188,447 was uninsured and uncollateralized.

Investments

As of June 30, 2005, the City had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment			
PrimeVest	<u>\$ 45,314</u>	<u>\$ 45,314</u>	N/A

Ionia Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Interest rate risk

The Library has not adopted a policy that indicates how the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Library has not adopted a policy that indicates how the Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Library has not adopted a policy that indicates how the Library will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

Due to significantly higher cash flow at certain periods during the year, the amount the Library held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

**NOTE C: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Capital Assets Not Being Depreciated				
Construction in progress	\$ -	\$ 143,720	\$ -	\$ 143,720
Land	-	113,664	-	113,664
Subtotal	-	257,384	-0-	257,384
Capital Assets Being Depreciated				
Building improvements	-	138,840	-	138,840
Collections	-	560,460	-	560,460
Furniture and equipment	-	53,008	-	53,008
Subtotal	-0-	752,308	-0-	752,308
Less Accumulated Depreciation				
Building improvements	-	8,590	-	8,590
Collections	-	35,359	-	35,359
Furniture and equipment	-	12,119	-	12,119
Subtotal	-0-	56,094	-0-	56,094
Net Capital Assets Being Depreciated	-0-	( 696,214 )	-0-	696,214
Total Net Capital Assets	\$ -0-	\$ 953,598	\$ -0-	\$ 953,598

Ionia Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE D: COMPENSATED ABSENCES**

The following is a summary of changes in compensated absences (including current portions) of the Library for the year ended June 30, 2005:

	Balance Dec. 1, 2004	Additions	Deletions	Balance June 30, 2005	Amounts Due Within One Year
Compensated absences	\$ 24,132	\$ -	\$ 2,242	\$ 21,890	\$ 2,189

Significant details regarding compensated absences (including current portions) are presented below:

Compensated Absences

In accordance with Library personnel policies, individual employees have rights upon termination of employment to receive payment for unused sick leave under the formulas and conditions specified in the personnel policies. The dollar amount of these rights (vested and probable to vest) including related payroll taxes amounted to \$21,890 for compensated absences at June 30, 2005. This amount has been recorded in the government-wide financial statements.

**NOTE E: RISK MANAGEMENT**

The Library was covered by the City of Ionia's liability, property, and workers' compensation policies through June 30, 2005. The City participates in a State pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The City also participates in a State Pool, the Michigan Municipal Workers Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The City and Library have no liability for additional assessments based on the claims filed against the pools nor do they have any right to dividends.

**NOTE F: RETIREMENT PLAN**

Plan Description

The Library participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Library Board. The Library contributes all amounts necessary to fund the system.

Annual Pension Cost

For the year ended June 30, 2005, the Library's annual pension cost of \$28,278 for the plan was equal to the Library's required and actual contribution. The estimated annual required contribution was determined as part of the initial actuarial valuation at October 1, 2004, using the entry actual age cost method. Actual required contributions are based on current monthly payroll times an actuarially computed employer contribution rate. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, and (c) assumption benefits will

## NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE F: RETIREMENT PLAN – CONTINUED**

not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a 30 year period on a closed basis.

	<u>Year Ended September 30, 2004</u>
Actuarial value of assets	\$ -
Actuarial accrued liability (AAL)	268,066
Unfunded AAL	268,066
Funded ratio	0%
Covered payroll	146,301
UAAL as a percentage of covered payroll	15.83%
	<u>Year Ended June 30, 2005</u>
Annual pension cost	\$ 28,278
Percentage of APC contributed	100%
Net pension obligation	-

Trend information is not yet available as the Library first started participating in MERS during the year ended June 30, 2005.

**NOTE G: FUND EQUITY RESERVES**

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following is the fund balance as of June 30, 2005:

Fund Balances

General Fund	
Reserved for capital projects	<u>\$ 36,999</u>

**NOTE H: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2005:

Governmental activities	
Restricted for capital projects	<u>\$ 36,999</u>

Ionia Community Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Library's budgeted expenditures in the General Fund have been shown at the functional classification level. The approved budgets of the Library have been adopted at the total expenditure level.

During the year ended June 30, 2005, the Library incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Recreation and cultural	\$ 557,385	\$ 557,940	\$ 555

## **REQUIRED SUPPLEMENTARY INFORMATION**

Ionía Community Library

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 272,034	\$ 272,839	\$ 272,839	\$ -0-
Library fees	7,000	9,103	9,568	465
Intergovernmental				
State aid	18,136	19,530	19,510	(20)
City of Ionía	150,609	150,609	169,060	18,451
Penal fines	125,000	155,379	155,379	-0-
Interest	10,000	10,000	9,093	(907)
Other				
Donations	75,000	82,356	76,251	(6,105)
Other	43,209	8,178	5,905	(2,273)
TOTAL REVENUES	700,988	707,994	717,605	9,611
EXPENDITURES				
Recreation and cultural				
Salaries and wages	186,352	191,198	192,226	(1,028)
Payroll taxes and fringe benefits	91,302	90,405	84,774	5,631
Utilities	7,000	8,705	8,293	412
Supplies	18,380	3,500	3,518	(18)
Communications	7,620	8,120	7,573	547
Advertising	2,500	2,500	2,171	329
Repairs and maintenance	23,400	23,400	21,158	2,242
Insurance	3,000	1,900	1,887	13
Contractual services	20,000	20,000	23,142	(3,142)
Travel and training	4,000	4,000	3,782	218
Dues and memberships	7,200	7,300	7,874	(574)
Fundraising	-	98,430	98,662	(232)
Miscellaneous	6,000	6,000	6,789	(789)
Total recreation and cultural	376,754	465,458	461,849	3,609
Capital outlay				
Books and other materials	23,725	41,270	45,434	(4,164)
Equipment	4,200	5,599	5,599	-0-
Construction in process	150,000	45,058	45,058	-0-
Total capital outlay	177,925	91,927	96,091	(4,164)
TOTAL EXPENDITURES	554,679	557,385	557,940	(555)
EXCESS OF REVENUES OVER EXPENDITURES	146,309	150,609	159,665	9,056
Fund balance, beginning of year	-	-	-	-0-
Fund balance, end of year	\$ 146,309	\$ 150,609	\$ 159,665	\$ 9,056

Principals

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Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



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MANAGEMENT LETTER

Ionia Community Library  
Ionia, Michigan

As you know, we have recently completed our audit of the records of Ionia Community Library as of and for the year ended June 30, 2005. In connection with the audit, we feel that a certain change in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. This suggestion is a result of our evaluation of the internal control structure and our discussions with management.

The investment policy of the Library should be amended to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Library has not amended their investment policy to address the reporting requirements of GASB Statement No. 40.

Deposit resources often represent significant assets of the Library's governmental funds. These resources are necessary for the delivery of the Library's services and programs. Effective for the year ended June 30, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and risks that could affect the Library's ability to provide services and meet its obligations as they become due.

We suggest the Library review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Library's financial statements by GASB Statement No. 40.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated September 13, 2005.

This report is intended solely for the information and use of the administration of Ionia Community Library, and should not be used for any other purpose.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 13, 2005